

MAURY REGIONAL HOSPITAL

Annual Financial Report

June 30, 2016



MAURY REGIONAL HOSPITAL

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SECTION I
INTRODUCTORY SECTION

BOARD OF TRUSTEES AND MANAGEMENT OFFICIALS
June 30, 2016

Board of Trustees

Doug Williamson, Chairman

Houston Parks, Vice Chairman

Alan Watson, Secretary

Charlotte Battles

Scott Gaines

Sue Gray, M.D.

Mike Greene

Michael Pelletier (ex-officio)

Rodney Poling, M.D.

Mike Tyler, D.D.S.

Management Officials

Alan Watson, Chief Executive Officer

Nick Swift, Chief Financial Officer

Paul Betz, Chief Operating Officer

Chris Edwards, M.D., Chief Medical Officer

Deborah Lumpkins, Chief Nursing Officer



November 7, 2016

To the State of Tennessee - Comptroller of the Treasury
Department of Audit & Municipal Division and
Patrons of the Hospital:

State law requires all entities operating in the public sector to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting standards generally accepted in the United States of America. Pursuant to that requirement, we hereby issue this annual financial report for Maury Regional Hospital, headquartered in Columbia, Tennessee. The reporting period is the twelve months ended June 30, 2016.

Maury Regional Hospital (the Hospital), was created in 1953 by a Private Act of the State of Tennessee. The Hospital is a proprietary enterprise fund of Maury County, Tennessee and the nine members of the Board of Trustees are appointed by the Maury County Commission to three year terms.

As a proprietary enterprise fund of Maury County, the Hospital is required to use the same accounting principles generally accepted in the United States, otherwise known as GAAP, as similar Hospitals in the private sector. In addition to the Notes to the Financial Statements, GAAP prescribes three basic financial statements: Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows.

If you have any questions about this report or need additional information, contact the Board of Trustees of Maury Regional Hospital at 1224 Trotwood Ave., Columbia, Tennessee 38401.

Respectfully Submitted,

Doug Williamson, Chairman
Board of Trustees

SECTION II
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of and for the years ended June 30, 2016 and 2015, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

The Hospital's management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the combined financial statements present only the business-type activities and the aggregate discretely presented component units of Maury Regional Hospital and do not purport to, and do not, present fairly the financial position of Maury County, Tennessee as of June 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of Changes in Net Pension Liability and Related Ratios (shown on page 37) and the Schedule of Actuarial Contributions (shown on page 38) be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. However, Maury Regional Hospital has elected to omit the MD&A. Our opinion on the basic financial statements is not affected by this missing information.

We have applied certain limited procedures to the included required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information: Our audit was conducted for the purpose of forming an opinion on the Hospital's basic combined financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic combined financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Peeling Young: Annual PC

Knoxville, Tennessee
November 7, 2016, except for our
report on Other Information which
is dated January 9, 2017

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position

	June 30, 2016		June 30, 2015	
	Maury Regional Hospital	Discretely Presented Component Units	Maury Regional Hospital	Discretely Presented Component Units
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 48,958,736	\$ 288,606	\$ 37,900,703	\$ 339,945
Certificates of deposit	323,783	-	322,164	-
Investments	1,988,553	-	1,532,267	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately \$30,000,000 in 2016 and \$24,500,000 in 2015	35,101,929	731,873	33,666,240	443,121
Inventories	4,867,202	15,854	4,781,254	10,378
Prepaid expenses	3,884,663	41,156	3,297,028	39,709
Due (to) from affiliates	507,095	(507,095)	555,192	(555,192)
Other receivables	2,281,408	615	1,794,952	1,001
TOTAL CURRENT ASSETS	97,913,369	571,009	83,849,800	278,962
ASSETS LIMITED AS TO USE	63,123,459	-	69,387,898	-
EQUITY INTEREST IN JOINT VENTURES	259,199	-	(99,446)	-
PROPERTY, PLANT AND EQUIPMENT, net	115,640,916	4,456,797	116,794,350	5,126,269
OTHER ASSETS	4,346,627	-	4,218,278	-
TOTAL ASSETS	281,283,570	5,027,806	274,150,880	5,405,231
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension adjustments	4,670,043	-	614,779	-
Deferred amounts from debt refunding	183,709	-	221,073	-
DEFERRED OUTFLOWS OF RESOURCES	4,853,752	-	835,852	-
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 286,137,322	\$ 5,027,806	\$ 274,986,732	\$ 5,405,231

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Net Position - Continued

	June 30, 2016		June 30, 2015	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
LIABILITIES AND NET POSITION				
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 4,038,335	\$ 932,350	\$ 4,076,164	\$ 1,010,067
Accounts payable and accrued expenses	8,474,632	448,475	10,038,115	469,539
Accrued salaries and wages	3,811,837	39,535	7,294,133	-
Accrued compensated absences	7,124,290	-	6,115,974	-
Accrued workers' compensation	2,187,598	-	2,049,013	-
Estimated amounts due to third party payers, net	3,475,059	-	5,998,390	-
Interest payable	321,620	-	82,427	-
TOTAL CURRENT LIABILITIES	29,433,371	1,420,360	35,654,216	1,479,606
OTHER LONG-TERM LIABILITIES	17,460,095	-	10,949,532	-
LONG-TERM DEBT				
Bonds payable	33,603,761	-	37,306,694	-
Other long-term debt	1,233,734	4,216,139	1,946,118	5,223,371
	34,837,495	4,216,139	39,252,812	5,223,371
Less current portion	(4,038,335)	(932,350)	(4,076,164)	(1,010,067)
TOTAL LONG-TERM DEBT	30,799,160	3,283,789	35,176,648	4,213,304
DEFERRED INFLOWS OF RESOURCES				
Deferred pension adjustments	581,401	-	864,558	-
TOTAL DEFERRED INFLOWS OF RESOURCES	581,401	-	864,558	-
NET POSITION				
Net investment in capital assets	92,698,594	240,658	96,702,069	(97,102)
Unrestricted	115,164,701	82,999	95,639,709	(190,577)
TOTAL NET POSITION	207,863,295	323,657	192,341,778	(287,679)
COMBINED LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 286,137,322	\$ 5,027,806	\$ 274,986,732	\$ 5,405,231

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position

	Year Ended June 30, 2016	
	Maury Regional Hospital	Discretely Presented Component Units
OPERATING REVENUE		
Net patient service revenue	\$ 321,997,679	\$ 5,025,497
Other operating revenue	9,701,022	1,175
TOTAL OPERATING REVENUE	331,698,701	5,026,672
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	188,752,763	1,295,615
Supplies	61,991,422	130,310
Purchased services	21,674,456	1,007,790
Professional fees	4,647,653	1,214,419
Repairs and maintenance	3,958,678	60,726
Utilities	3,781,694	17,472
Leases	4,557,378	630,415
Insurance	2,034,650	11,880
Other expenses	9,856,871	122,893
Depreciation and amortization	17,258,717	675,260
TOTAL OPERATING EXPENSES	318,514,282	5,166,780
INCOME (LOSS) FROM OPERATIONS	13,184,419	(140,108)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	2,417,587	-
Investment income	1,275,169	-
Interest expense	(969,183)	(228,556)
Other	(157,120)	-
Equity in joint venture losses	(229,355)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	2,337,098	(228,556)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	15,521,517	(368,664)
Capital contributions/funding	-	980,000
CHANGE IN NET POSITION	15,521,517	611,336
NET POSITION, BEGINNING OF YEAR	192,341,778	(287,679)
NET POSITION, END OF YEAR	\$ 207,863,295	\$ 323,657

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Position - Continued

	<i>Year Ended June 30, 2015</i>	
	<i>Maury Regional Hospital</i>	<i>Discretely Presented Component Units</i>
OPERATING REVENUE		
Net patient service revenue	\$ 296,154,015	\$ 4,557,230
Other operating revenue	11,412,522	1,230
TOTAL OPERATING REVENUE	307,566,537	4,558,460
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	179,084,670	1,174,998
Supplies	52,940,319	123,924
Purchased services	20,879,750	1,020,599
Professional fees	3,136,365	1,243,838
Repairs and maintenance	3,836,064	28,758
Utilities	4,220,118	16,216
Leases	4,561,970	674,121
Insurance	2,066,108	6,595
Other expenses	8,774,768	161,780
Depreciation and amortization	16,880,780	680,993
TOTAL OPERATING EXPENSES	296,380,912	5,131,822
INCOME (LOSS) FROM OPERATIONS	11,185,625	(573,362)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	1,917,901	-
Investment income	810,051	1
Interest expense	(444,286)	(254,382)
Other	(37,755)	-
Equity in joint venture losses	(479,570)	-
TOTAL NONOPERATING REVENUE (EXPENSES)	1,766,341	(254,381)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	12,951,966	(827,743)
Capital contributions/funding	-	500,000
CHANGE IN NET POSITION	12,951,966	(327,743)
NET POSITION, BEGINNING OF YEAR	179,389,812	40,064
NET POSITION, END OF YEAR	\$ 192,341,778	\$ (287,679)

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	\$ 319,285,638	\$ 296,419,251
Payments to vendors for supplies and other	(114,739,868)	(100,499,927)
Payments to and on behalf of employees	(186,107,731)	(179,776,501)
Other receipts	4,998,818	9,856,998
NET CASH PROVIDED BY OPERATING ACTIVITIES	23,436,857	25,999,821
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	2,417,587	1,917,901
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	(16,713,069)	(15,621,477)
Proceeds from sale of equipment	978,962	63,411
Proceeds from issuance of long-term debt	-	34,186,582
Payments on long-term debt	(4,142,384)	(13,714,312)
Interest paid on long-term debt	(1,035,559)	(569,316)
Deferred amounts from bond refunding	-	(221,073)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(20,912,050)	4,123,815
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	1,275,169	810,051
Proceeds from maturities of certificates of deposit	645,947	642,415
Purchase of certificates of deposit	(647,566)	(644,328)
Purchases of investments and AWUL	5,808,153	(30,996,877)
Investment in joint venture	(588,000)	(300,000)
Issuance of notes receivable	(378,064)	(729,223)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	6,115,639	(31,217,962)
INCREASE IN CASH AND CASH EQUIVALENTS	11,058,033	823,575
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,900,703	37,077,128
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 48,958,736	\$ 37,900,703

See notes to combined financial statements.

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows - Continued

	Year Ended June 30,	
	2016	2015
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 13,184,419	\$ 11,185,625
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	17,258,717	16,880,780
Provision for bad debts	24,139,877	29,919,639
Amortization of deferred pension adjustments	1,094,848	(33,076)
Changes in:		
Patient accounts receivable	(25,575,566)	(32,857,124)
Inventories	(85,948)	(367,962)
Prepaid expenses	(587,635)	(45,659)
Due from affiliates	48,097	30,000
Other assets	(695,037)	(970,745)
Accounts payable and accrued expenses	(1,563,483)	329,156
Accrued salaries and wages	(3,482,296)	272,099
Accrued compensated absences	1,008,316	534,779
Accrued workers' compensation	138,585	(2,096,252)
Estimated amounts due to third party payers	(2,523,331)	1,263,700
Other long-term liabilities	1,077,294	1,954,861
TOTAL ADJUSTMENTS	10,252,438	14,814,196
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 23,436,857	\$ 25,999,821
SUPPLEMENTAL INFORMATION:		
Equipment acquired through capital leases	\$ 70,000	\$ 152,877

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements

Years Ended June 30, 2016 and 2015

NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of Southern and Middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties. The financial statements present the Hospital and its component units. The Hospital is comprised of the following operating entities:

Maury Regional Medical Center (MRMC), located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.

Marshall Medical Center is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and is designated a Critical Access Hospital with 25 licensed beds.

Wayne Medical Center (WMC) is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

Blended Component Units: The combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

Family Health Group, Inc. (FHG) is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of FHG and funds its operating losses.

Maury Regional Ambulatory Surgery Center (the Surgery Center) is a nonprofit corporation that provides medical care to non-emergent patients in the Hospital's service area. The Hospital is the sole member of the Surgery Center and funds its operating losses. Operations at the Surgery Center began in fiscal year 2014.

Maury Regional Healthcare Foundation (the Foundation) is a not-for-profit organization formed to coordinate the fundraising activities of the Hospital. The Hospital is the sole member of the Foundation and appoints all Board members. The Hospital also funds all operating expenses of the Foundation.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Discretely Presented Component Units: The discretely presented component units column in the financial statements includes joint ventures in which the Hospital has a majority ownership. The Hospital's intent in owning a portion of these joint ventures is to expand the healthcare services it provides. They are reported in a separate column to emphasize that they are legally separate from the Hospital and include the following entities:

Spring Hill Imaging Center, LLC (the Imaging Center) owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital. The financial reports of the Imaging Center may be obtained by mailing a request to 5421 Main Street, Spring Hill, Tennessee 37174.

Vanderbilt-Maury Radiation Oncology, LLC (VMRO) owns and operates an outpatient center that provides radiation oncology treatment services to patients in the Hospital's service area. VMRO is owned 60% by the Hospital. Operations at VMRO began in fiscal year 2014. The financial reports of VMRO may be obtained by mailing a request to 1003 Reserve Boulevard, Suite 120, Spring Hill, Tennessee 37174.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis using the economic resources measurement focus.

Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

Inventories: Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

Patient Accounts Receivable: Patient accounts receivable are reported net of an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third party payer programs. The bad debt allowance is estimated

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Investments and Assets Limited as to Use: Investments and assets limited as to use are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements. Included in assets limited as to use is approximately \$11,900,000 restricted for future capital additions.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of \$1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2016.

Intangible Assets: Intangible assets, including goodwill, are amortized over their estimated useful life and included in other assets in the combined financial statements.

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Prior to July 1, 2015, employees also earned sick leave benefits based on varying rates depending on years of service and accumulated sick leave up to a specified maximum. Employees were not paid for accumulated sick leave if they left before retirement. However, employees who retired after the age of sixty could convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments totals approximately \$1,090,000 and \$1,170,000 at June 30, 2016 and 2015, respectively, and is reported as a noncurrent liability in the combined financial statements. The Hospital's paid time off policy was amended effective July 1, 2015 to eliminate future sick pay accruals and freeze existing sick pay accrual amounts at their June 30, 2015 amounts. In addition, the accrual for compensated absences at June 30, 2015 was modified to utilize a "years of service" factor which served to reduce the amount recorded. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2017.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016

Net Position: Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is remaining assets that do not meet the definition of *net investment in capital assets*. There were no assets in a restricted position at June 30, 2016.

Net Patient Service Revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payers. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Operating Activities: The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as investment income and interest expense, are considered nonoperating revenue and expenses.

Contributions and Grants: Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

Income Taxes: The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes. As taxable entities, the owners of the Imaging Center and VMRO account for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. At June 30, 2016, management does not believe the Hospital holds any uncertain tax positions that would require financial statement recognition or disclosure.

Subsequent Events: The Hospital evaluated all events or transactions that occurred after June 30, 2016 through November 7, 2016, the date the combined financial statements were available to be issued. Management did not note any subsequent events that required recognition or disclosure in the combined financial statements.

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Reclassifications: Certain 2015 amounts in the accompanying combined financial statements have been reclassified to conform with the 2016 presentation.

Recently Issued/Adopted Accounting Pronouncements: In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*, which prescribes how governmental entities should define and measure fair value, provides guidance on which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. The Statement amends the definition of fair value currently utilized by GASB and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is described as an exit price. The Statement assumes that the transaction occurs in the principal, or most advantageous, market for the asset or liability and fair value is to be determined using one of three valuation approaches: market, cost, or income. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows or income and expenses, to a single, current, discounted amount. The Statement generally requires investments to be measured at fair value and defines an investment as a security or other asset that (a) a governmental entity holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. A government entity is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share, or its equivalent, of the investment. The Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. The Hospital adopted this Statement during 2016, and it did not have a significant impact on the financial statements.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payers that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payers is recorded as a reduction of gross patient service charges. Revenue for patient service charges has been adjusted to the amounts estimated to be receivable under third party payer arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

that management's estimates will change in 2017. Net patient service revenue for the year ended June 30, 2016 increased by approximately \$770,000 and decreased by approximately \$820,000 for the year ended June 30, 2015, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third party payers follows:

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients and such amounts are not guaranteed in future periods. Approximately \$11,400,000 and \$11,700,000 of net patient accounts receivable are due from the Medicare program at June 30, 2016 and 2015, respectively.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately \$2,800,000 and \$2,900,000 of net patient accounts receivable are from payers under the TennCare program at June 30, 2016 and 2015.

During 2016 and 2015, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately \$2,100,000 and \$2,340,000 respectively. Future distributions under these programs are not guaranteed. Such amounts are subject to potential recoupment.

Other Payers: The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately \$4,900,000 and \$5,800,000 in 2016 and 2015, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

	<i>Year Ended June 30,</i>	
	<i>2016</i>	<i>2015</i>
Patient service charges	\$ 1,029,699,503	\$ 918,571,844
Contractual adjustments	(664,863,204)	(571,383,915)
Provision for bad debts	(24,139,877)	(29,919,639)
Charity care	(18,698,743)	(21,114,275)
	<u>\$ 321,997,679</u>	<u>\$ 296,154,015</u>

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Statements of Net Position is as follows:

	<i>2016</i>	<i>2015</i>
Bank deposits	\$ 66,278,960	\$ 60,870,040
Investments	48,115,571	48,272,992
	<u>\$ 114,394,531</u>	<u>\$ 109,143,032</u>

These amounts are included in the combined financial statements as follows:

	<i>2016</i>	<i>2015</i>
Cash and cash equivalents	\$ 48,958,736	\$ 37,900,703
Certificates of deposit	323,783	322,164
Investments	1,988,553	1,532,267
Assets limited as to use	63,123,459	69,387,898
	<u>\$ 114,394,531</u>	<u>\$ 109,143,032</u>

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's Collateral Pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the State of Tennessee's Collateral Pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

members of the State of Tennessee's Collateral Pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the State of Tennessee's Collateral Pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2016, the Hospital's bank balances for deposits totaled \$65,698,291, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's Collateral Pool. Remaining deposits totaling \$251,137 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows at June 30, 2016:

<i>Investment Type</i>	<i>Carrying Amount</i>	<i>Investment Maturities in Years</i>		
		<i>Less than 1</i>	<i>1-5</i>	<i>N/A</i>
Mutual funds - fixed income	\$ 12,042,238	\$ -	\$ -	\$ 12,042,238
Mutual funds - equity	19,315,571	-	-	19,315,571
Government agency bonds	7,095,511	501,795	6,593,716	-
Corporate and municipal bonds	9,662,251	2,261,553	7,400,698	-
	<u>\$ 48,115,571</u>	<u>\$ 2,763,348</u>	<u>\$ 13,994,414</u>	<u>\$ 31,357,809</u>

Interest Rate Risk: As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

Credit Risk: The Hospital's investment policy restricts investments in corporate bonds to those with a credit rating of at least BBB and municipal bonds to those with a rating of at least AA. Mutual funds' underlying investments must meet the same credit ratings as other investments. The credit rating of the Hospital's corporate and municipal bonds is as follows at June 30, 2016:

<i>Rating</i>	<i>Carrying Amount</i>
AAA	\$ 307,656
AA	9,949,615
A	5,073,533
BBB	1,426,958
	<u>\$ 16,757,762</u>

Concentration of Credit Risk: The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments. Equity investments cannot exceed 15% of total investments. An investment in the equity of a single corporation and a single equity mutual fund should not exceed 5% and 15%, respectively, of total investments.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2016 and 2015 is as follows:

	<i>Balance July 1, 2015</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2016</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,613,433	\$ 248,333	\$ (5,000)	\$ 5,856,766
Buildings	182,723,713	6,247,220	(69,153)	188,901,780
Equipment	174,331,171	10,946,345	(5,284,316)	179,993,200
Total capital assets being depreciated	362,668,317	17,441,898	(5,358,469)	374,751,746
Less accumulated depreciation for:				
Land improvements	4,690,978	219,227	(5,000)	4,905,205
Buildings	116,113,277	7,695,303	(60,965)	123,747,615
Equipment	142,773,037	8,885,891	(4,577,463)	147,081,465
Total accumulated depreciation	263,577,292	16,800,421	(4,643,428)	275,734,285
Total capital assets being depreciated, net	99,091,025	641,477	(715,041)	99,017,461
<u>Capital assets not being depreciated</u>				
Land	8,078,966	-	(422,294)	7,656,672
Construction in progress	9,624,359	(657,576)	-	8,966,783
Total capital assets not being depreciated	17,703,325	(657,576)	(422,294)	16,623,455
Total capital assets, net	\$ 116,794,350	\$ (16,099)	\$ (1,137,335)	\$ 115,640,916
	<i>Balance July 1, 2014</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2015</i>
<u>Capital assets being depreciated</u>				
Land improvements	\$ 5,613,433	\$ -	\$ -	\$ 5,613,433
Buildings	181,214,696	1,549,955	(40,938)	182,723,713
Equipment	168,662,154	6,925,222	(1,256,205)	174,331,171
Total capital assets being depreciated	355,490,283	8,475,177	(1,297,143)	362,668,317
Less accumulated depreciation for:				
Land improvements	4,468,271	228,877	(6,170)	4,690,978
Buildings	108,490,555	7,622,722	-	116,113,277
Equipment	135,357,279	8,612,574	(1,196,816)	142,773,037
Total accumulated depreciation	248,316,105	16,464,173	(1,202,986)	263,577,292
Total capital assets being depreciated, net	107,174,178	(7,988,996)	(94,157)	99,091,025

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

	<i>Balance July 1, 2014</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance June 30, 2015</i>
<u>Capital assets not being depreciated</u>				
Land	8,085,975	-	(7,009)	8,078,966
Construction in progress	2,325,182	7,299,177	-	9,624,359
Total capital assets not being depreciated	10,411,157	7,299,177	(7,009)	17,703,325
Total capital assets, net	\$ 117,585,335	\$ (689,819)	\$ (101,166)	\$ 116,794,350

During 2016 and 2015, the Hospital capitalized interest expense on construction projects totaling approximately \$187,000 and \$203,800, respectively. Construction in progress at June 30, 2016 consists primarily of facility renovations, and the total estimated costs required to complete construction in progress is approximately \$10,915,000.

NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	<i>2016</i>	<i>2015</i>
Bonds Payable:		
Series 2015, Maury County General Obligation Refunding and Public Improvement Bonds issued on behalf of the Hospital, with interest rates ranging from 2.00% to 5.00%, with the final payment due April 1, 2027.	\$ 28,710,000	\$ 30,335,000
Series 2012B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates at 2.00%, with the final payment due April 1, 2020.	1,325,000	1,640,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with an interest rate of 5.00% with the final payment due June 1, 2016.	-	1,420,000
Total bonds payable	30,035,000	33,395,000
Unamortized premiums	3,568,761	3,911,694
Total bonds payable, net of unamortized premiums	33,603,761	37,306,694
Other Long-term Debt:		
Capital lease obligations - see Note I	1,233,734	1,946,118
	34,837,495	39,252,812
Less: current portion	4,038,335	4,076,164
	<u>\$ 30,799,160</u>	<u>\$ 35,176,648</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and to pay issuance costs. The bonds are secured by unlimited ad valorem taxes on all taxable property within the County.

The Series 2015 Bonds were issued to finance the constructing, repairing, renovating and equipping of the Hospital in addition to prepaying the Hospital's outstanding notes payable and the remaining portion of the Series 2006 Bonds less \$1,420,000 that was paid in 2016.

The Series 2015 Bonds maturing on or after April 1, 2026 are subject to redemption prior to maturity at the option of the County on April 1, 2025 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2016 (including the capital lease obligations and excluding unamortized premiums) follows:

<i>Year Ending June 30</i>	<i>Principal</i>	<i>Interest</i>
2017	\$ 4,038,335	\$ 1,320,463
2018	3,698,855	1,236,066
2019	3,570,245	1,075,296
2020	3,726,299	907,906
2021	3,545,000	732,250
2021-2025	10,670,000	1,691,000
2026-2030	2,020,000	60,600
	<u>\$ 31,268,734</u>	<u>\$ 7,023,581</u>

A schedule of changes in long-term debt for the years ended June 30, 2016 and 2015 is as follows:

	<i>Balance July 1, 2015</i>	<i>Additions/ Amortization</i>	<i>Payments/ Maturities</i>	<i>Balance June 30, 2016</i>	<i>Amounts Due Within One Year</i>
Bonds payable	\$ 33,395,000	\$ -	\$ (3,360,000)	\$ 30,035,000	\$ 3,285,000
Unamortized premiums	3,911,694	(342,933)	-	3,568,761	-
Other long-term debt	1,946,118	70,000	(782,384)	1,233,734	753,335
	<u>\$ 39,252,812</u>	<u>\$ (272,933)</u>	<u>\$ (4,142,384)</u>	<u>\$ 34,837,495</u>	<u>\$ 4,038,335</u>

	<i>Balance July 1, 2014</i>	<i>Additions/ Amortization</i>	<i>Payments/ Maturities</i>	<i>Balance June 30, 2015</i>	<i>Amounts Due Within One Year</i>
Bonds payable	\$ 11,795,000	\$ 30,335,000	\$ (8,735,000)	\$ 33,395,000	\$ 3,360,000
Unamortized premiums	222,892	3,688,802	-	3,911,694	-
Other long-term debt	6,772,553	152,877	(4,979,312)	1,946,118	716,164
	<u>\$ 18,790,445</u>	<u>\$ 34,176,679</u>	<u>\$ (13,714,312)</u>	<u>\$ 39,252,812</u>	<u>\$ 4,076,164</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

NOTE G--PENSION PLAN

Plan Description: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997, 1998 or 2001. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

Benefits Provided: In addition to normal retirement benefits, the Plan also provides for early retirement and death benefits. Retirement benefits are calculated as a percent of the employee's highest average compensation during 60 consecutive months of the last 120 months of employment. Employees earn full retirement benefits once an employee has reached the age of 65. Early retirement benefits are available once an employee has reached age 55 and 5 years of service at a reduced rate based on age. Death benefits equal the actuarial equivalent value of the employee's vested accrued benefit as of the date of death. An employee who terminates service for other reasons after five years of credited service will receive retirement benefits at the normal retirement date.

Employees Covered: At April 30 (the measurement date), the following employees were included in the Plan:

	<i>2016</i>	<i>2015</i>
Active employees - accruing benefits	60	71
Active employees - frozen benefits	293	326
Inactive employees with deferred benefits	262	266
Disabled	7	8
Inactive employees currently receiving benefits	550	510
	<u>1,172</u>	<u>1,181</u>

Contributions: The Hospital funds the plan as contributions are approved by the Board of Trustees based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned during the year with an additional amount to finance any unfunded accrued liability.

Net Pension Liability: The Hospital's net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

actuarial valuation as of April 30, 2016 and 2015. The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement as of April 30:

	<i>2016</i>	<i>2015</i>
Inflation	2.5%	2.5%
Salary increases	4.0% - 7.5%	4.0% - 7.5%
Investment rate of return	8.0%	8.0%
Discount rate	8.0%	8.0%

Mortality rates were based on the 1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA. The actuarial valuation method used was entry age normal method.

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows as of April 30:

<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-term Expected Real Rate of Return</i>
Large cap equities	45.00%	9.25%
Small cap equities	6.00%	11.00%
International equities	10.00%	9.75%
Emerging market equities	4.00%	12.50%
Real estate	5.00%	8.75%
Fixed income	30.00%	4.25%

The pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees assuming the actuarially determined contributions are made each year, although not required by the funding policy. Therefore, the discount rate for determining the total pension liability is equal to the long-term expected rate of return on pension plan investments.

Changes in the Net Pension Liability: Changes in the Hospital's net pension liability are as follows for the years ended June 30:

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balance, June 30, 2014	\$ 46,282,937	\$ 43,593,225	\$ 2,689,712
Service cost	505,975	-	505,975
Interest	3,628,986	-	3,628,986
Experience gains or losses	825,938	-	825,938
Benefit payments	(2,853,179)	(2,853,179)	-
Administrative expenses	-	(260,570)	260,570
Investment income (loss)	-	3,304,037	(3,304,037)
Employer contributions	-	802,000	(802,000)
Balance, June 30, 2015	48,390,657	44,585,513	3,805,144
Service cost	346,713	-	346,713
Interest	3,781,511	-	3,781,511
Liability gains or losses	(68,783)	-	(68,783)
Benefit payments	(3,255,490)	(3,255,490)	-
Administrative expenses	-	(210,087)	210,087
Investment income (loss)	-	(1,990,259)	1,990,259
Employer contributions	-	851,000	(851,000)
Balance, June 30, 2016	\$ 49,194,608	\$ 39,980,677	\$ 9,213,931

The Plan's fiduciary net position as a percentage of the total pension liability was approximately 81% and 92% as of June 30, 2016 and 2015, respectively.

The following presents the net pension liability of the Hospital calculated using the current discount rate of 8.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0%) or 1-percentage-point higher (9.0%) than the current rate:

	<i>1% Decrease 7.0%</i>	<i>Current Rate 8.0%</i>	<i>1% Increase 9.0%</i>
Net pension liability	\$ 13,928,744	\$ 9,213,931	\$ 5,130,771

Pension Expense and Deferred Outflows and Deferred Inflows of Resources: For the years ended June 30, 2016 and 2015, the Hospital recognized pension expense totaling \$1,929,533 and \$978,226, respectively. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources from the following sources:

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ 275,312	\$ (41,271)
Differences between projected and actual earnings	4,394,731	(540,130)
	<u>\$ 4,670,043</u>	<u>\$ (581,401)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ 1,080,425
2018	818,868
2019	1,102,694
2020	1,086,655

NOTE H--OTHER RETIREMENT PLANS

Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution in 2016 and 2015 consisted of a matching contribution equal to 100% of the first 3% of annual compensation and an additional matching contribution equal to 125% of the employees' contribution from 4-5% of annual compensation if the employee had five or more years of service. The Hospital's total contributions for the years ended June 30, 2016 and 2015 were approximately \$4,080,000 and \$4,000,000, respectively. Hospital employees' total contributions for the years ended June 30, 2016 and 2015 were approximately \$6,500,000 and \$5,620,000, respectively.

NOTE I--LEASES

Capital Leases: The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 2.4% to 4.5%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Equipment acquired under capital leases	\$ 3,731,077	\$ 3,437,877
Less accumulated amortization	(2,493,720)	(1,568,578)
	<u>\$ 1,237,357</u>	<u>\$ 1,869,299</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2016:

<u>Year Ending June 30,</u>	
2017	\$ 763,801
2018	492,153
2019	57,866
2020	11,404
Total minimum lease payments	1,325,224
Amount representing interest	(91,490)
Present value of minimum lease payments	<u>\$ 1,233,734</u>

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately \$4,560,000 and \$4,560,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease commitments for all significant non-cancelable operating leases, excluding discretely presented component units, are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 2,256,087
2018	1,967,447
2019	1,981,021
2020	1,996,040
2021	1,736,665
2022-2026	7,707,324
2027-2031	3,514,549
2032-2036	969,444
	<u>\$ 22,128,577</u>

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately \$1,940,000 and \$2,010,000 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases to physicians are as follows:

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

<u>Year Ending June 30,</u>	
2017	\$ 1,280,317
2018	523,549
2019	377,065
2020	185,381
2021	154,118
	<u>\$ 2,520,430</u>

NOTE J--LEASED HEALTHCARE FACILITIES

Effective July 1, 2014, the Hospital entered into a five-year lease under a lease arrangement with Wayne County for the operation of several Wayne County healthcare facilities, including the county hospital, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense is \$50,000 each year and an annual capital improvement commitment of \$150,000. The lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

NOTE K--COMMITMENTS AND CONTINGENCIES

General Liability Claims: The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

Malpractice Liability Claims: The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to \$300,000 for injury or death per person and \$700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of \$1,000,000 per occurrence with a retention of \$250,000 per claim and a \$3,000,000 annual aggregate with a \$750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately \$960,000 and \$980,000 at June 30, 2016 and 2015, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a per claim and policy limit of \$500,000. Management has recorded an

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

accrual for the estimated liability related to claims reported as of June 30, 2016 and 2015. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding \$300,000 with an additional aggregating specific amount of \$100,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately \$3,060,000 and \$2,590,000 at June 30, 2016 and 2015, respectively. Prior to July 1, 2015, employees that retired after attaining age sixty and completing twenty years of service received continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The Hospital's policy for healthcare benefits for retired employees was amended effective July 1, 2015, to eliminate future accruals and payments of healthcare benefits for employees not yet retired as of June 30, 2015. The estimated amount of retirement health benefits payable totaled approximately \$855,000 and \$1,175,000 at June 30, 2016 and 2015, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2017.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts that may be payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

Healthcare Reform: In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

NOTE L--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management estimates that the carrying value of its financial instruments, including cash and cash equivalents, investments, patient accounts and other receivables, accounts payable and accrued expenses, and estimated liability for refunds are at fair value or approximate fair value due to the nature and short-term maturities of these instruments. Management estimates that the fair value of its capital lease obligations and long-term debt was approximately \$39,800,000 as of June 30, 2016. Carrying amounts approximated fair value as of June 30, 2015.

NOTE M--FAIR VALUE MEASUREMENT

GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As such, GASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB describes fair value as an exit price where measurement assumes a transaction takes place in an entity's principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB Statement No. 72 requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Valuation Hierarchy: GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels which are defined as follows:

- *Level 1:* Inputs to the valuation technique are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation technique, other than quoted prices within *Level 1*, that are observable for an asset or liability, either directly or indirectly.
- *Level 3:* Inputs to the valuation technique are unobservable.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

measurement in its entirety. The Hospital's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents assets reported at fair value as of June 30, 2016 and 2015, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2016:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Investments in Mutual Funds - Fixed Income	\$ 12,042,238	\$ 12,042,238	\$ -	\$ -
Investments in Mutual Funds - Equity	19,315,571	19,315,571	-	-
Investment in Governmental Agency Bonds	7,095,511	-	7,095,511	-
Investments in Corporate and Municipal Bonds	9,662,251	-	9,662,251	-
	<u>\$ 48,115,571</u>	<u>\$ 31,357,809</u>	<u>\$ 16,757,762</u>	<u>\$ -</u>

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2015:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Investments in Mutual Funds - Fixed Income	\$ 18,084,476	\$ 18,084,476	\$ -	\$ -
Investments in Mutual Funds - Equity	8,669,055	8,669,055	-	-
Investment in Governmental Agency Bonds	10,982,656	-	10,982,656	-
Investments in Corporate and Municipal Bonds	10,536,805	-	10,536,805	-
	<u>\$ 48,272,992</u>	<u>\$ 26,753,531</u>	<u>\$ 21,519,461</u>	<u>\$ -</u>

The fair value of investments in U.S. government agency bonds, municipal bonds and corporate bonds is estimated based on matrix pricing of similar assets or market corroborated pricing.

NOTE N--OTHER REVENUE

The American Recovery and Reinvestment Act of 2009 and the Health Information Technology for Economic and Clinical Health (HITECH) Act established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified Electronic Health Record (EHR) technology. To qualify for incentive payments, healthcare providers must meet designated EHR meaningful use criteria as defined. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period. The Hospital recognizes revenue for EHR incentive payments when substantially all

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016

contingencies have been met. The Hospital recognized approximately \$200,000 and \$2,300,000 of other revenue related to EHR incentive payments in 2016 and 2015, respectively.

NOTE O--BLENDED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's blended component units is as follows:

Statements of Net Position - June 30, 2016

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Assets						
Current assets	\$ 93,463,333	\$ 3,996,835	\$ 437,015	\$ 1,721,102	\$ (2,212,011)	\$ 97,406,274
Due (to) from affiliates	1,536,843	640	(1,029,045)	-	(1,343)	507,095
Property, plant, and equipment	109,748,493	1,703,577	4,188,846	-	-	115,640,916
Other assets	78,899,477	266,338	360,608	-	(11,797,138)	67,729,285
	283,648,146	5,967,390	3,957,424	1,721,102	(14,010,492)	281,283,570
Deferred Outflows of Resources						
Deferred pension adjustments	4,670,043	-	-	-	-	4,670,043
Deferred amounts from debt refunding	183,709	-	-	-	-	183,709
	4,853,752	-	-	-	-	4,853,752
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$288,501,898	\$ 5,967,390	\$ 3,957,424	\$ 1,721,102	\$ (14,010,492)	\$286,137,322
Liabilities						
Current liabilities	\$ 25,198,860	\$ 4,203,097	\$ 2,254,128	\$ -	\$ (2,222,714)	\$ 29,433,371
Long-term debt	30,799,160	-	-	-	-	30,799,160
Other liabilities	17,460,095	-	-	-	-	17,460,095
	73,458,115	4,203,097	2,254,128	-	(2,222,714)	77,692,626
Deferred Outflows of Resources						
Deferred pension adjustments	581,401	-	-	-	-	581,401
Net Position						
Net investment in capital assets	86,806,171	1,703,577	4,188,846	-	-	92,698,594
Unrestricted	127,656,211	60,716	(2,485,550)	1,721,102	(11,787,778)	115,164,701
	214,462,382	1,764,293	1,703,296	1,721,102	(11,787,778)	207,863,295
	\$ 288,501,898	\$ 5,967,390	\$ 3,957,424	\$ 1,721,102	\$ (14,010,492)	\$ 286,137,322

Statements of Net Position - June 30, 2015

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Assets						
Current assets	\$ 79,972,189	\$ 3,222,327	\$ 389,074	\$ 1,326,039	\$ (1,615,021)	\$ 83,294,608
Due (to) from affiliates	1,585,326	(100)	(1,029,045)	-	(989)	555,192
Property, plant, and equipment	111,060,444	1,305,268	4,428,638	-	-	116,794,350
Other assets	84,862,892	-	382,463	-	(11,738,625)	73,506,730
	\$277,480,851	\$ 4,527,495	\$ 4,171,130	\$ 1,326,039	\$ (13,354,635)	\$274,150,880
Deferred Outflows of Resources						
Deferred pension adjustments	614,779	-	-	-	-	614,779
Deferred amounts from debt refunding	221,073	-	-	-	-	221,073
	835,852	-	-	-	-	835,852
COMBINED ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$278,316,703	\$ 4,527,495	\$ 4,171,130	\$ 1,326,039	\$ (13,354,635)	\$274,986,732

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Liabilities						
Current liabilities	\$ 31,990,039	\$ 3,923,137	\$ 1,357,050	\$ -	\$ (1,616,010)	\$ 35,654,216
Long-term debt	35,176,648	-	-	-	-	35,176,648
Other liabilities	10,949,532	-	-	-	-	10,949,532
	78,116,219	3,923,137	1,357,050	-	(1,616,010)	81,780,396
Deferred Outflows of Resources						
Deferred pension adjustments	864,558	-	-	-	-	864,558
Net Position						
Net investment in capital assets	90,968,163	1,305,268	4,428,638	-	-	96,702,069
Unrestricted	108,367,763	(700,910)	(1,614,558)	1,326,039	(11,738,625)	95,639,709
	199,335,926	604,358	2,814,080	1,326,039	(11,738,625)	192,341,778
	\$278,316,703	\$ 4,527,495	\$ 4,171,130	\$ 1,326,039	\$ (13,354,635)	\$274,986,732

Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2016

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Operating Revenue						
Net patient service revenue	\$284,442,188	\$ 35,991,494	\$ 1,563,997	\$ -	\$ -	\$321,997,679
Other operating revenue	14,744,999	4,494,706	-	-	(9,538,683)	9,701,022
	299,187,187	40,486,200	1,563,997	-	(9,538,683)	331,698,701
Operating expenses	260,780,235	47,519,360	2,140,348	607,529	(9,791,907)	301,255,565
Depreciation and amortization	15,794,664	1,033,097	430,956	-	-	17,258,717
INCOME (LOSS) FROM OPERATIONS	22,612,288	(8,066,257)	(1,007,307)	(607,529)	253,224	13,184,419
Nonoperating revenue (expenses)	2,921,603	(108,991)	-	1,002,592	(279,568)	3,535,636
Equity in affiliate losses	(9,517,090)	-	-	-	9,287,735	(229,355)
Interest Expense	(890,345)	(1,705)	(103,477)	-	26,344	(969,183)
EXCESS OF REVENUE OVER EXPENSES	15,126,456	(8,176,953)	(1,110,784)	395,063	9,287,735	15,521,517
Capital contributions/Transfers	-	9,336,888	-	-	(9,336,888)	-
CHANGE IN NET POSITION	15,126,456	1,159,935	(1,110,784)	395,063	(49,153)	15,521,517
NET POSITION, BEGINNING OF YEAR	199,335,926	604,358	2,814,080	1,326,039	(11,738,625)	192,341,778
NET POSITION, END OF YEAR	\$214,462,382	\$ 1,764,293	\$ 1,703,296	\$ 1,721,102	\$ (11,787,778)	\$207,863,295

Statements of Revenue, Expenses and Changes in Net Position - Year Ended June 30, 2015

	Hospital	FHG	Surgery Center	Foundation	Eliminations	Hospital (Blended)
Operating Revenue						
Net patient service revenue	\$264,106,370	\$ 30,967,682	\$ 1,079,963	\$ -	\$ -	\$296,154,015
Other operating revenue	14,928,289	4,540,951	-	-	(8,056,718)	11,412,522
	279,034,659	35,508,633	1,079,963	-	(8,056,718)	307,566,537
Operating expenses	244,358,376	40,995,927	1,905,416	565,123	(8,324,710)	279,500,132
Depreciation and amortization	15,414,746	1,054,355	411,679	-	-	16,880,780
INCOME (LOSS) FROM OPERATIONS	19,261,537	(6,541,649)	(1,237,132)	(565,123)	267,992	11,185,625
Nonoperating revenue (expenses)	2,290,623	(8,189)	3	705,644	(297,884)	2,690,197
Equity in affiliate losses	(8,404,964)	-	-	-	7,925,394	(479,570)
Interest Expense	(335,770)	(6,339)	(132,069)	-	29,892	(444,286)
EXCESS OF REVENUE OVER EXPENSES	12,811,426	(6,556,177)	(1,369,198)	140,521	7,925,394	12,951,966
Capital contributions/Transfers	-	5,270,298	3,751,726	-	(9,022,024)	-
CHANGE IN NET POSITION	12,811,426	(1,285,879)	2,382,528	140,521	(1,096,630)	12,951,966
NET POSITION, BEGINNING OF YEAR	186,524,500	1,890,237	431,552	1,185,518	(10,641,995)	179,389,812
NET POSITION, END OF YEAR	\$199,335,926	\$ 604,358	\$ 2,814,080	\$ 1,326,039	\$ (11,738,625)	\$192,341,778

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Statements of Cash Flows - Year Ended June 30, 2016

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Hospital (Blended)</i>
Cash flows from operating activities	\$ 19,489,287	\$ 668,512	\$ 4,282,361	\$ (1,003,303)	\$ 23,436,857
Cash flows from noncapital financing activities	1,429,608	-	-	987,979	2,417,587
Cash flows from capital and related financing activities	(16,532,581)	(62,683)	(4,316,786)	-	(20,912,050)
Cash flows from investing activities	6,101,026	-	-	14,613	6,115,639
Increase in cash and cash equivalents	10,487,340	605,829	(34,425)	(711)	11,058,033
Cash and cash equivalents, beginning of year	38,557,940	(869,660)	196,104	16,319	37,900,703
Cash and cash equivalents, end of year	\$ 49,045,280	\$ (263,831)	\$ 161,679	\$ 15,608	\$ 48,958,736

Statements of Cash Flows - Year Ended June 30, 2015

	<i>Hospital</i>	<i>FHG</i>	<i>Surgery Center</i>	<i>Foundation</i>	<i>Hospital (Blended)</i>
Cash flows from operating activities	\$ 23,160,554	\$ (590,337)	\$ 4,174,693	\$ (745,089)	\$ 25,999,821
Cash flows from noncapital financing activities	1,249,225	-	-	668,676	1,917,901
Cash flows from capital and related financing activities	8,503,284	(62,683)	(4,316,786)	-	4,123,815
Cash flows from investing activities	(31,254,933)	-	3	36,968	(31,217,962)
Increase in cash and cash equivalents	1,658,130	(653,020)	(142,090)	(39,445)	823,575
Cash and cash equivalents, beginning of year	36,899,810	(216,640)	338,194	55,764	37,077,128
Cash and cash equivalents, end of year	\$ 38,557,940	\$ (869,660)	\$ 196,104	\$ 16,319	\$ 37,900,703

NOTE P--DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Condensed financial information of the Hospital's discretely presented component units is as follows:

Statements of Net Position

	<i>June 30, 2016</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Assets		
Current assets	\$ 488,823	\$ 589,281
Due (to) from affiliates	(507,095)	-
Property, plant, and equipment	356,481	4,100,316
	<u>\$ 338,209</u>	<u>\$ 4,689,597</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Statements of Net Position

	<i>June 30, 2016</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Liabilities		
Current liabilities	\$ 365,390	\$ 1,054,970
Long-term debt	500,430	2,783,359
	865,820	3,838,329
Net Position		
Net investment in capital assets	(271,050)	511,708
Unrestricted	(256,561)	339,560
	(527,611)	851,268
	<u>\$ 338,209</u>	<u>\$ 4,689,597</u>
	<i>June 30, 2015</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Assets		
Current assets	\$ 661,440	\$ 172,714
Due (to) from affiliates	(555,192)	-
Property, plant, and equipment	418,667	4,707,602
	<u>\$ 524,915</u>	<u>\$ 4,880,316</u>
Liabilities		
Current liabilities	\$ 515,626	\$ 963,980
Long-term debt	627,516	3,585,788
	1,143,142	4,549,768
Net Position		
Net investment in capital assets	(444,639)	347,537
Unrestricted	(173,588)	(16,989)
	(618,227)	330,548
Net Position	<u>\$ 524,915</u>	<u>\$ 4,880,316</u>

MAURY REGIONAL HOSPITAL

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Statements of Revenue, Expenses and Changes in Net Position

	<i>Year Ended June 30, 2016</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Operating revenue	\$ 2,971,197	\$ 2,055,475
Operating expenses	2,760,765	1,730,755
Depreciation and amortization	67,973	607,287
INCOME (LOSS) FROM OPERATIONS	142,459	(282,567)
Interest expense	51,843	176,713
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	90,616	(459,280)
Capital contributions/transfers	-	980,000
CHANGE IN NET POSITION	90,616	520,720
NET POSITION, BEGINNING OF YEAR	(618,227)	330,548
NET POSITION, END OF YEAR	\$ (527,611)	\$ 851,268

	<i>Year Ended June 30, 2015</i>	
	<i>Imaging Center</i>	<i>VMRO</i>
Operating revenue	\$ 2,667,787	\$ 1,890,673
Operating expenses	2,737,088	1,713,741
Depreciation and amortization	73,706	607,287
	(143,007)	(430,355)
Interest Expense	46,730	207,651
DEFICIT OF REVENUE OVER EXPENSES	(189,737)	(638,006)
Capital contributions/Transfers	-	500,000
CHANGE IN NET POSITION	(189,737)	(138,006)
NET POSITION, BEGINNING OF YEAR	(428,490)	468,554
NET POSITION, END OF YEAR	\$ (618,227)	\$ 330,548

The Imaging Center owes MRMC approximately \$507,000 and \$555,000 for reimbursement of expenses at June 30, 2016 and 2015, respectively. MRMC made capital contributions to VMRO totaling \$588,000 and \$300,000 for the years ended June 30, 2016 and 2015, respectively.

SECTION III

REQUIRED SUPPLEMENTARY INFORMATION

MAURY REGIONAL HOSPITAL***Schedule of Changes in Net Pension Liability and Related Ratios******Years Ended June 30, 2016***

	<i>2016</i>	<i>2015</i>
Total pension liability		
Service cost	\$ 346,713	\$ 505,975
Interest	3,781,511	3,628,986
Differences between expected and actual experience	(68,783)	825,938
Benefit payments	(3,255,490)	(2,853,179)
Net change in total pension liability	803,951	2,107,720
Total pension liability, beginning of year	48,390,657	46,282,937
Total pension liability, end of year	<u>\$ 49,194,608</u>	<u>\$ 48,390,657</u>
Plan fiduciary net position		
Contributions - employer	\$ 851,000	\$ 802,000
Net investment income (loss)	(1,990,259)	3,304,037
Benefit payments	(3,255,490)	(2,853,179)
Administrative expense	(210,087)	(260,570)
Net change in plan fiduciary net position	(4,604,836)	992,288
Plan fiduciary net position, beginning of year	44,585,513	43,593,225
Plan fiduciary net position, end of year	<u>\$ 39,980,677</u>	<u>\$ 44,585,513</u>
Net pension liability, end of year	<u>\$ 9,213,931</u>	<u>\$ 3,805,144</u>
Fiduciary net position as a percentage of the total pension liability	81%	92%
Covered-employee payroll	\$ 21,446,750	\$ 24,915,801
Net pension liability as a percentage of covered-employee payroll	43%	15%

MAURY REGIONAL HOSPITAL

Schedule of Actuarial Contributions

Years Ended June 30, 2016

	2016	2015	2014	2013	2012	2011	2010	2009*	2008*	2007*
Actuarially determined contributions	\$ 851,000	\$ 802,000	\$ 828,000	\$ 849,000	\$ 728,000	\$ 752,987	\$ 785,010	\$ -	\$ -	\$ -
Actual employer contributions	851,000	802,000	828,000	849,000	728,000	752,987	785,010	-	-	-
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 21,446,750	\$ 24,915,801	\$ 26,897,136	\$ 28,852,878	\$ 29,504,598	\$ 29,775,815	\$ 31,543,626	\$ 33,943,822	\$ 35,131,145	\$ 35,461,450
Contributions as a percentage of covered-employee payroll	4%	3%	3%	3%	2%	3%	2%	0%	0%	0%

Notes to Schedule:

Valuation date:	Actuarially determined contribution rates are calculated as of April 30, one year prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method:	Entry age normal method
Amortization method:	Level percentage of pay
Amortization period:	30 years
Asset valuation method:	Market value of assets
Inflation:	2.5%
Lump sum interest rate:	N/A
Salary increases:	4.0% - 7.5% using an age based salary scale
Investment rate of return:	8.00%
Retirement age:	Normal retirement at 65 years, early retirement at 55 years with 5 years of service
Mortality:	1994 Group Annuity Mortality Basic Table with mortality improvement projected to the valuation year under Projection Scale AA

* No contribution required

SECTION IV

INTERNAL CONTROL AND COMPLIANCE SECTION



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities and aggregate discretely presented component units of Maury Regional Hospital (the Hospital) as of and for the year ended June 30, 2016, and the related notes to the combined financial statements which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency. (2016-01)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pauling Young: Assistant PC

Knoxville, Tennessee
November 7, 2016

MAURY REGIONAL HOSPITAL

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<i>Grantor</i>	<i>Pass-Through Grantor Agency</i>	<i>Program Name</i>	<i>CFDA Number</i>	<i>Grant Number (Grant Period)</i>	<i>Federal Expenditures</i>
U.S. Department of Health and Human Services	N/A	Rural Access to Emergency Devices	93.259	D94RH29281 (9/1/15 - 8/31/16)	\$ 18,269
U.S. Department of Health and Human Services	N/A	Affordable Care Act Grants for New and Expanded Services Under the Health Center Program	93.527	H80CS26598 (11/1/13 - 1/31/19)	1,169,253
U.S. Department of Health and Human Services	N/A	Rural Healthcare Services Outreach, Rural Health Network Development and Small Healthcare Provider Quality Improvement	93.912	P10RH27745 (9/1/14 - 8/31/15)	73,403
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Small Rural Hospital Improvement	93.301	DA17129984 (12/1/15 - 5/31/16)	9,973
U.S. Department of Health and Human Services	State of Tennessee Department of Health	Hospital Preparedness and Public Health Emergency Preparedness	93.074	GE-14-38578 (7/1/13 - 6/30/14)	35,663
U.S. Department of Health and Human Services	State of Tennessee Department of Health	National Bioterrorism Hospital Preparedness	93.889	GE-16-46786 (7/1/15 - 6/30/16)	21,315
Total U.S. Department of Health and Human Services					<u>1,327,876</u>
Total Expenditures of Federal Awards					<u>\$ 1,327,876</u>

MAURY REGIONAL HOSPITAL

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the grant activity of Maury Regional Hospital (the Hospital) and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

De Minimis Indirect Cost Rate: The Hospital has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C--CONTINGENCIES

The Hospital's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Hospital's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Hospital expects such amounts, if any, to be immaterial.

MAURY REGIONAL HOSPITAL

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

The auditor's report expressed an unmodified opinion on the combined financial statements of Maury Regional Hospital.

Internal control over financial reporting:

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified?	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
Noncompliance material to combined financial statements noted?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

FEDERAL AWARDS

The auditor's report on compliance for the major federal award programs for Maury Regional Hospital expresses an unmodified opinion on its major federal programs.

Internal control over major programs:

Material weakness(es) identified?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Significant deficiency identified?	None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
--	---

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.527

U.S. Department of Health and Human Services – Affordable Care Act Grants for New and Expanded Services Under the Health Center Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
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MAURY REGIONAL HOSPITAL

Schedule of Findings and Questioned Costs - Continued

Year Ended June 30, 2016

Section II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the combined financial statements for which *Government Auditing Standards* require reporting.

Finding: 2016-01

Type of Finding: Significant deficiency in internal control over financial reporting

Criteria: Cash account reconciliations should be done timely and effectively to properly detect errors.

Context: The Hospital's process for reconciling a cash account did not appropriately resolve a significant reconciling difference.

Cause: When performing the reconciliation of one of the Hospital's cash accounts, the responsible accounting staff person did not appropriately resolve a significant reconciling difference. Also, the review of the reconciliation performed by supervisory accounting staff did not timely detect the deficiency.

Effect or Potential Effect: Errors or misstatements may not be identified and corrected.

Recommendation: The Hospital's management team should ensure that those who perform and review cash account reconciliations do so timely and effectively.

Responsible Official's and Corrective Action Planned: The Hospital's management team will reiterate the importance of cash account reconciliations and performing internal controls.

Planned Implementation Date of Corrective Action: Fiscal Year 2017

Section III - Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2CFR200 Section 516(a) of the Uniform Guidance (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

Not applicable, no findings or questioned costs.

MAURY REGIONAL HOSPITAL

Schedule of Prior Audit Findings

Year Ended June 30, 2016

There were no prior audit findings.



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

Report on Compliance for Each Major Federal Program

We have audited Maury Regional Hospital's (the Hospital) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Programs

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pauline Young: Annotate PC

Knoxville, Tennessee
January 9, 2017